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# ASCS Background Information

## COMMODITY CREDIT CORPORATION

BI No. 2

United States  
Department of  
Agriculture

Agricultural  
Stabilization and  
Conservation  
Service

October 1990

### Background

The Commodity Credit Corporation (CCC) is Government-owned and operated. The Corporation was created to stabilize, support, and protect farm income and prices. The CCC also helps maintain balanced and adequate supplies of agricultural commodities and helps in their orderly distribution.

The CCC was incorporated October 17, 1933, under a Delaware charter with a capitalization of \$3 million. It was initially managed and operated in close affiliation with the Reconstruction Finance Corporation, which funded its on-going operations. On July 1, 1939, the CCC was transferred to the Department of Agriculture by the President's Reorganization Plan I. It was re-incorporated on July 1, 1948, as a Federal corporation within the Department of Agriculture by the Commodity Credit Corporation Charter Act (62 Stat. 1070; 15 U.S.C. 714).

### Basic Responsibilities

The CCC Charter Act, as amended, authorizes the Corporation to support prices of agricultural commodities through loans, purchases, payments, and other operations, and makes available materials and facilities required in the production and marketing of agricultural commodities. The CCC Charter also authorizes the sale of agricultural commodities to other Government agencies and to foreign governments, and food donations to domestic, foreign, or international relief agencies. The CCC also assists in the development of new domestic and foreign markets and marketing facilities for agricultural commodities.

### Organization

The Corporation is managed by a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex officio director and chairperson of the Board. The Board consists of seven members, in addition to the Secretary, who are appointed by the President of the United States by and with the advice and consent of the Senate. The members of the Board and the Corporation's officers all are officials of the U.S. Department of Agriculture.

The CCC has no operating personnel. Its price support, storage, reserve and diversion programs, and its domestic acquisition and disposal activities for price-supported commodities, are carried out primarily through the personnel and facilities of the Agricultural Stabilization and Conservation Service (ASCS).

**Other USDA Agencies**

The Corporation also uses the services of other agencies in the Department of Agriculture to carry out its authorities and responsibilities. The Agricultural Marketing Service (AMS) utilizes various commodities acquired by the CCC under price support operations and is responsible for acquisition of food items for domestic food programs. The Food and Nutrition Service (FNS) is responsible for distribution of food made available through these programs. Export sales (except for tobacco, peanuts, and naval stores) and foreign assistance disposal of CCC-controlled stocks are administered through the General Sales Manager, who is also an Associate Administrator of the Foreign Agricultural Service (FAS).

Officers of the CCC, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations, and with activities on international markets.

The Corporation's commodity programs must be approved by the Board of Directors and/or the Secretary of Agriculture.

**Financing**

The Corporation has an authorized capital stock of \$100 million held by the United States, with the authority to have outstanding borrowings of up to \$30 billion at any one time. Public Law 95-279, approved May 15, 1978, increased the statutory borrowing authority to \$25 billion from \$20 billion, to the extent provided in appropriation acts. The fiscal year 1982 supplemental appropriation act, P.L. 97-257, increased the availability to \$25 billion. The fiscal year 1988 appropriation act, P.L. 100-202, increased the statutory borrowing authority to \$30 billion.

Funds are borrowed from the Treasury and may also be borrowed from private lending agencies and others. The Corporation reserves a sufficient amount of its borrowing authority to purchase at any time all notes and other obligations evidencing loans made by such agencies and others. All bonds, notes, debentures, and similar obligations issued by the Corporation are subject to approval by the Secretary of the Treasury as required by the Act of March 8, 1938 (15 U.S.C. 713a-4). Reservation of borrowing authority for these purposes has not been required for many years.

Interest on borrowings from the Treasury (and on capital stock) is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Interest may also be paid on other notes and obligations at a rate prescribed by the CCC and approved by the Secretary of the Treasury.

The Department of Agriculture and Related Agencies Appropriation Act, 1966, made provision for terminating interest after June 30, 1964, on the portion of the Corporation's borrowings from the Treasury equal to the unreimbursed realized losses recorded on the books of the Corporation after the end of the fiscal year in which such losses are realized.

<b>Support Activities</b>	Commodity support operations, handled primarily through loan, purchase and payment programs, include those for wheat, corn, soybeans, cotton (upland and extra long staple), rice, tobacco, milk and milk products, wool, mohair, barley, oats, sorghum, rye, honey, peanuts, and sugar. Loan rates are designed to keep commodities competitive; and target prices, where applicable, are designed to reflect costs of production.
	Through commodity and farm storage facility loans, and the farmer-owned grain reserve programs, farmers are encouraged to store designated commodities when stocks are higher than needed to meet domestic and export requirements, for release in the market when stocks run low and prices are more advantageous to farmers.
	Proposals for support programs usually are prepared by ASCS divisions in the form of a docket -- a group of documents covering economic and other factors upon which the proposal is based, total funds required, proposed method of support, conditions of eligibility, basic operating provisions, and other information relative to the proposal.
	When a program is approved by the Board of Directors and/or the Secretary of Agriculture, a public announcement, usually in form of a press release, is issued. Detailed operating instructions are sent to personnel in charge of administering the program in Washington and the field, and regulations are published in the Federal Register.
	ASCS county office personnel assist the farmer in the preparation of support documents, check the farmer's eligibility for support, and keep the farmer informed of program details.
<b>Inventory Operations</b>	The Corporation is authorized to transport, store, process, and dispose of various agricultural commodities and their products.
	The CCC conducts a program to provide storage adequate to fulfill its program needs by contracting with commercial warehouses to store grain in county, sub-terminal, and terminal locations.
	In carrying out support programs, the CCC acquires its inventory in two principal ways:
	<u>"Takeover"</u> -- Commodities pledged as collateral for support loans are taken over by the CCC if the commodity is not redeemed by loan repayment time. Loans to producers are nonrecourse in that producers are not obligated to repay their loans or make good any decline in the market price of the commodity they have put up as collateral. Instead, a producer can deliver or forfeit the collateral to the CCC with settlement of the loan made at loan rate on the quantity and quality involved.
	<u>Purchases</u> -- Prices of some commodities are supported through purchases of the commodities from producers. The CCC is committed to buy eligible commodities from producers, at the producer's option, at the support level.

This method of support is available to producers on a number of commodities on which loans are also available.

Support for milk and the products of milk is carried out through purchases of butter, cheese, and nonfat dry milk from processors and handlers.

There are no CCC support programs for processed products, other than dairy products. Many commodities, such as wheat, corn, oats, and rye are stored in raw, bulk form by the CCC and require considerable processing before they can be used for food.

Commodities and products acquired through purchase either go immediately into available outlets or are placed in the CCC's inventory.

The CCC is authorized to contract for the use of privately owned facilities in carrying out its activities. The CCC also has authority to acquire personal property and to rent or lease office space necessary for its business. But the CCC is prohibited from acquiring real property, or any interest in property except for the purpose of protecting its financial interests and for providing adequate storage to carry out its programs.

## Disposal Operations

The sale, donation, or transfer of CCC commodities is handled by the Kansas City ASCS Commodity Office.

Sales by the commodity offices are made at fixed prices or through competitive bids. Information on CCC-owned commodities available for sale, or barter (if authorized), is contained in an Annual Sales List and a Monthly Sales List issued by USDA at the end of each month and effective for the following month.

In pricing commodities for domestic use, CCC-owned commodities generally are required to be sold at levels above the loan rate, depending on the commodity and other conditions of sale, plus reasonable carrying charges. In addition, higher minimum sale prices are applicable to wheat and feed grains when the farmer-owned grain reserve programs are in effect for such commodities. Congress has established the CCC pricing policy in order to protect CCC's investment in the commodity, to stabilize prices, and in order that there will be no interference with commercial trade channels. Exempted from the minimum price restriction are commodities in danger of loss or waste through deterioration or spoilage, and wool, peanuts and oilseeds, under certain conditions. CCC sales of non-storable commodities such as dairy products also are exempt from the minimum pricing requirements, but are made at prices moderately above the current support level for domestic unrestricted use.

**Domestic Programs**

The CCC is authorized, in certain circumstances, to donate food commodities, acquired through support programs or from private stocks, to the Bureau of Indian Affairs, and to Federal, State, and private agencies for use in the United States in school lunch programs, summer camps for children, assistance of needy persons, and in charitable institutions, including hospitals, to the extent needy persons are served. In most instances, arrangements are made to process the commodities into food.

The CCC also provides surplus dairy products to the armed services and to veterans hospitals without charge, except for the cost of packaging, and donates food acquired through support programs to Federal penal and correctional institutions, and to State correctional institutions for minors, except where service is provided on a concession basis.

The Corporation makes available to the Secretary of the Interior grain acquired through support operations to be used as feed for migratory waterfowl for the purpose of preventing crop damage. The Secretary of the Interior also may requisition CCC grain for feeding starving migratory birds, and any State may requisition CCC grain upon the finding of the Secretary of the Interior that resident game birds and other resident wildlife are threatened with starvation.

The CCC makes available its farm commodities or products in areas of acute economic distress, and in connection with certain major disasters, as determined by the President of the United States.

**Certificate Programs**

The 1985 Act authorized a number of new programs that provide for payments to be made in generic certificates. These programs include the Targeted Export Assistance and the Export Enhancement programs, designed to maintain and expand export markets for U.S. agricultural commodities and counter unfair trade practices by foreign competitors; the Ethanol Plant Assistance Program to encourage the use of grain in the production of ethanol fuel; the issuance of marketing certificates to rice and cotton producers and first handlers of cotton to increase these commodities' competitiveness in world markets; and the Conservation Reserve Program, implemented to remove highly erodible cropland from production for 10 years. The 1989 crop disaster program, authorized by the Disaster Assistance Act of 1989, provides assistance to producers who suffered 1989 crop production losses because of adverse weather or related conditions, payable in generic commodity certificates.

**Export Programs**

The Corporation promotes the export of agricultural commodities and products through sales, payments, direct credit, credit guarantees, and the conduct of other activities related to the exportation of commodities. During fiscal year 1989, CCC export credit activities consisted only of credit guarantees under the Export Credit Guarantee Program and the Intermediate Export Guarantee Program. There was no credit activity under the short-term or intermediate export credit sales programs.

Direct Credit -- CCC may provide financing of commercial export sales of eligible U.S. agricultural commodities through short-term and intermediate credit sales programs. These programs are not intended to displace cash sales, but are designed to maintain or expand overseas markets.

The short-term export credit sales program (GSM-5) provides financing, on terms not to exceed 3 years, for the commercial sales of agricultural commodities from private stocks. Sales are made by U.S. exporters and require an assurance of payment from a U.S. or foreign bank. Repayments are made in U.S. dollars with interest at rates determined by the Corporation. These commercial transactions are financed under the Corporation's charter authority and section 4(a) of the Food for Peace Act, as amended.

From the beginning of the short-term export credit sales program in 1956 through September 30, 1989, sales of agricultural commodities have amounted to approximately \$9,649.2 million, with an additional \$426.4 million in capitalized interest resulting from debt rescheduling. There was no program activity in fiscal years 1987 through 1989.

Credit Guarantees -- In 1980, CCC instituted the Export Credit Guarantee Program (GSM-102) under its charter authority. With this program, CCC guarantees, for a fee, payments due U.S. exporters under deferred payment sales contracts (up to 36 months) for defaults due to commercial as well as noncommercial risks. The risk to CCC extends from the date of export to the end of the deferred payment period covered in the export sales contract and covers only that portion of the payments agreed to in the assurance agreement. Operation of this program is based on criteria which will assure that it is used only where it is determined that it will develop new market opportunities and maintain and expand existing world markets for U.S. agricultural commodities. The program encourages U.S. financial institutions to provide financing to those areas where the institutions would be unwilling to provide financing in the absence of the CCC guarantees.

In 1986, the Intermediate Export Credit Guarantee Program (GSM-103) was implemented by CCC under its charter authority as required by the Food Security Act of 1985. The program is similar to the Export Credit Guarantee Program (GSM-102), but provides for CCC guarantees to exporters for commodities sold on credit terms in excess of 3 years but not more than 10 years. The program also provides for adjusting the maximum amount of interest which CCC guarantees to pay under the payment guarantee and permits freight costs to be covered for breeding animals financed under the GSM-102 and GSM-103 programs.

Export Enhancement Program -- An export enhancement program was initiated in 1985 in which not less than \$1 billion of CCC inventories was to be used through fiscal year 1988 for bonuses to U.S. exporters for sales of U.S. agricultural products. For fiscal year 1989, Congress allocated \$770 million for the program. All sales are required to increase U.S. agricultural exports above what would have occurred in the absence of the program. Sales must also be targeted to specific markets to challenge competitors who subsidize their exports. Bonus payments to exporters may be made in kind or through generic certificates that may be redeemed for CCC-owned commodities.

Targeted Export Assistance Program -- One of the new programs authorized by the Food Security Act of 1985, the Targeted Export Assistance Program, mandates the use of CCC funds or an equivalent value of CCC commodities to counter or offset the adverse effect on the export of U.S. agricultural commodities resulting from a subsidy, import quota, or other unfair trading practices of a foreign country or countries. The required level of funding is \$200 million for fiscal year 1989.

(For further information on export sales and foreign assistance programs, contact the General Sales Manager, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C. 20250.)

